

**House Commerce Energy and Power Subcommittee  
Hearing on Electric-Utility Restructuring  
Summary of Testimony by Erroll B. Davis Jr.,  
President and CEO, Wisconsin Power and Light Co.**

***Customers Will Benefit from Electric-Utility Restructuring***

Electric-utility restructuring is in the best interests of all consumers. Competition **and** a choice of supplier will give all consumers access to cost-saving opportunities and a wide range of products and services that they do not have under **today's** monopoly system

Several economists estimate that energy choice will save the U.S. economy up to **\$40** billion annually. In states where competition is being tried on a pilot **basis**, small and large consumers alike are saving 20 percent to 30 percent on their electric bills.

***Federal Legislation is Needed to Guide the Process***

**Only the federal** government can ensure that electric-utility restructuring follows a consistent and orderly transition across all 50 states. I **find** it ironic that the only people advocating a **state-by-state** approach to restructuring are those seeking to slow down or stop the process to serve their own interests,

In today's electricity marketplace, each state is not an "island." Transmission lines **connect states** and regions, power sales take place between utilities in dozens of states, and mergers and other business decisions impact interstate commerce across wide areas. **WP&L** last year bought and sold energy in 34 states and three Canadian Provinces.

If electric-utility restructuring proceeds entirely on a state-by-state basis -- with some moving quickly and some moving slowly or not at all -- we risk a **balkanization** of plans that will restrict interstate commerce, fail to create a level playing field and penalize millions of **consumers** by denying them genuine choices in an open market

***What elements should be incorporated in federal customer choice legislation?***

What is needed is a balanced federal-state approach to electric-utility restructuring -- leaving key implementation details up to the states, while providing broad federal structural guidelines and oversight and ensuring that all states implement restructuring consistently and by a **federally-specified** date.

Federal oversight should continue in the following areas:

- \* Timing of the transition to competition
- \* Universal access to a competitive market
- \* Merger approvals/market concentration safeguards
- \* Open transmission access
- \* Environmental protection (Federal Clean Air Act)

**House Committee on Commerce Subcommittee on Energy and Power  
Hearing on Electric-Utility Industry Restructuring**

**Testimony of Erroll B. Davis Jr, President and Chief Executive Officer, Wisconsin Power and Light Company, Madison, Wis.**

**Friday, May 2, 1997, Chicago, Illinois**

Good morning. For the record, my name is Erroll B. Davis Jr., and I serve as president and chief executive officer of Wisconsin Power and Light co.

I want to begin this morning by thanking Chairman Schaefer and all of the Energy and Power Subcommittee members for this opportunity to testify on an issue of utmost importance for American consumers and our nation's economy.

Let me also begin by giving you some background on the company I represent.

Wisconsin Power and Light Co. is an investor-owned utility based in Madison, Wisconsin. Our company, a subsidiary of WPL Holdings, Inc., provides electric, natural gas and water services to more than 400,000 customers in southern and central Wisconsin and a small portion of northern Illinois. Our electric rates have consistently remained in the lowest quartile among electric utilities throughout the nation.

***Overview of Electric-Utility Restructuring***

Restructuring of the electric-utility industry is a challenge that WP&L has been rising to long before it became a fashionable topic of conversation.

And, while I would acknowledge that utility companies did not go looking for competition, WP&L -- unlike many of our competitors -- did not run away from competition either. Instead of spending our time and resources fighting competition, we swallowed hard, embraced the inevitable, and began rebuilding our core utility business to prepare for it.

In doing so, we're rebuilding our business around the one constituency that many utilities take for granted -- customers. This is what competition will force energy suppliers to do, because it creates a marketplace that is shaped and governed by consumers, not monopoly utilities.

In my opinion, it is not the role of Congress to protect monopolies, whether they be WP&L or the smallest municipal utility. It is the role of Congress to protect the consumer. In the final analysis, it is Congress that will guarantee that all electric consumers are treated fairly, and this will be done most efficiently by mandating choice and setting the rules.

Investor-owned utilities, municipal utilities and rural electric cooperatives all have a vested interest in restructuring. Those vested interests are not ill-placed or misplaced, and most are legitimate. We are all concerned about our place in this new industry and what lies ahead.

However, what we are concerned about with respect to our own well-being and our ability to compete is really not the issue.

The issue is consumers, and how they will be better off. This industry is changing -- a fact no one can refute. As you are asked to make decisions on these changes, please ask yourself how they will affect consumers, not what is in the best interests of monopoly utilities.

While we may be three to five years away from the day when all customers can choose their energy supplier, the pace at which we are traveling toward this destination only continues to accelerate -- thanks in large part to the efforts of Congressmen like Dan Schaefer.

Just three years ago, only one state -- California -- had begun exploring the reality of a competitive energy-services marketplace. Today, nearly every state is responding in some fashion to the realities of customer choice. Four states -- California, Pennsylvania, New Hampshire and Rhode Island -- have already enacted customer choice legislation, while several others are expected to follow suit this year.

If nothing else were to change from today, 25 percent of American consumers would have the ability to choose their energy supplier by January 1, 2000.

Moreover, customers in a handful of "test markets" throughout the country are already saving up to 20 percent on their electric bills after being given the option to switch energy suppliers. Portions of Illinois are included in those important test markets.

Other states, such as Nevada, Oklahoma, Georgia and soon, Michigan, are using customer choice as an economic development tool by allowing large industrial and commercial customers that relocate in those states their choice of energy supplier.

In my state, Wisconsin, the Public Service Commission agreed in late-1995 to a 32-step process that would result in all customers being able to choose an energy supplier by December of the year 2000 -- assuming, of course, that the timeframes are met on each step.

Even states with very low electric rates that have been slow to move forward on restructuring are now starting to consider customer choice legislation. Such legislation has been introduced in Montana, North Carolina and South Carolina, and pilot programs are poised to begin in Missouri.

With that introduction, I would like to focus the remainder of my testimony on the three questions posed by your committee.

*Would customers benefit from having the ability to choose their electrical supplier?*

At WP&L, we believe that informed customers are quite capable of making intelligent energy decisions in a competitive marketplace. Competition and customer choice will be in the best interests of all consumers, because the change in this industry will provide them with access to cost-saving opportunities and a wide new range of products and services.

Today, consumers have choices in purchasing virtually everything from groceries and clothes to computers, cars and long-distance telephone service. These choices save people money. It's time to break the monopolies and bring those same choices to energy consumers.

Studies by several economists estimate that energy choice would save the U.S. economy up to \$40 billion annually, with savings of 20 percent to 30 percent for individual consumers. And, as I mentioned, competition pilot programs in Illinois and New Hampshire are already bearing witness to these projections, with consumers saving up to 20 percent on electric bills.

This is real money returned to the pockets of working families and business people -- the equivalent of a massive tax cut without the political pain of slashing entitlements or other government programs. These savings would translate into billions of dollars of freed capital for U.S. economic investment at a time of stiff global economic competition.

These are, admittedly, projections and estimates. However, one need only look at the natural gas industry -- a formerly-regulated utility monopoly -- to see how energy customers save money and benefit from market competition.

Notwithstanding the temporary spike in prices that occurred this winter in parts of the Midwest, average residential gas bills, after adjusting for inflation, declined 16 percent nationwide between 1987 and 1995 – a period that reflects the introduction of competition into the industry. Since 1984, residential gas customers served by WP&L have seen their monthly gas bills decline by more than \$300 per year, again, after adjusting for inflation.

Electricity consumers will realize similar savings in a competitive marketplace. Unless the laws of economics are repealed, competition will bring the price of electricity down

I would end this question by asking another. How can we say that we are serious about global competition when two suppliers 100 yards apart on the Wisconsin/Illinois border have to pay rates that are 40 percent different?

*Is federal legislation that provides for state implementation of retail competition programs and addresses interstate commerce issues necessary?*

While electric-utility competition and customer choice are inevitable, only the federal government can ensure that there is a consistent and orderly transition across all 50 states. It is the responsibility of Congress and the Executive Branch to help ensure that industry restructuring produces a fair and level playing field that will deliver economic benefits to all consumers.

The Edison Electric Institute (a national trade association that represents investor-owned utilities) and most large, high-cost utilities disagree with this position. They support allowing the timing and details of electric-utility restructuring to be decided entirely on a state-by-state basis. I strongly believe that if their position prevails, it will be at the expense of energy consumers.

In reality, supporters of a state-by-state approach to restructuring are simply trying to slow down or even stop a process that will benefit consumers by instituting market choices – and threaten high-cost utilities that charge rates far above what a competitive market would bear.

I do agree that states are good laboratories for reform, and I applaud those states that are moving with the market to bring a choice of energy supplier to consumers. My concern is that many states are not keeping pace.

We're also seeing supporters of a state-by-state approach wage their "divide and conquer" battle against restructuring on that very same state-by-state basis. Don't be deceived: they are doing nothing more than waving "states rights" as an excuse for Congress to turn a blind eye.

Calls to get it right or go slowly are nothing more than code for let me accrue monopoly profits for as long as possible.

If successful, the impacts of these actions and decisions will be felt not only by consumers within those states that lag behind, but far beyond their borders as well.

In today's electricity marketplace, each state is not an "island." Transmission lines connect states and regions, power sales take place between utilities in dozens of states, and mergers and other business decisions impact market concentration and interstate commerce across wide areas.

If electric-utility restructuring proceeds entirely on a state-by-state basis -- with some moving quickly and some moving slowly or not at all -- we risk a balkanization of state plans that will restrict interstate commerce, fail to create a level playing field and penalize millions of consumers by denying them choices and cost-saving opportunities in an open market.

Federal intervention, in this case, is not an intrusion on states rights. It is a guarantee for interstate commerce.

### ***What elements should be incorporated in federal customer choice legislation?***

What is needed is a balanced federal-state approach to electric-utility restructuring. Such an approach would leave key implementing details up to the states (thereby allowing them to meet their individual needs), while providing broad federal structural oversight and ensuring that all states implement restructuring consistently and by a federally-specified date.

I would envision continued federal oversight in the following areas:

- Timing of transition to competition. Congress should ensure that all states have implemented electric-utility competition and customer choice by a uniform date, leaving the decision on whether to implement sooner up to the individual states.

**\* Universal access to a competitive market.** Congress should ensure that all consumers have genuine choices, and that low-income consumers are protected, in a competitive market. Ideally, choice would be given to all consumers – residential, commercial and industrial – at the same time.

**\* Merger approvals/market concentration safeguards.** The emerging electric-utility marketplace will be characterized by multi-state utility mergers and utility business decisions that have regional and national implications. As a result, federal regulators must retain oversight of mergers and market concentration issues in the interest of interstate commerce.

**\* Transmission access.** Genuine market competition is not possible without fair and open access to the electric-transmission system for all customers and suppliers. Congress must ensure continued federal regulation of transmission systems and tariffs – most appropriately through the formation of Independent System Operators – in a competitive industry.

**\* Environment.** Electric-utility restructuring does not, in any way, equal environmental deregulation. The existing regulatory framework of the Federal Clean Air Act provides the most balanced, consistent and effective way of protecting the environment while still ensuring a level playing field for all competing energy suppliers. On the other hand, a state-by-state approach to environmental regulation of electric utilities presents the very real danger of imposing unequal, draconian and scientifically-unnecessary restrictions on selected companies in selected regions of the nation – the antithesis of a level playing field for genuine market competition.

## ***Conclusion***

WP&L is a strong supporter of electric-utility restructuring because we believe that it is in the best interests of consumers and the nation's economy. A balanced legislative approach that applies consistent federal guidelines, provides all consumers with choice on a uniform timeframe and allows states the flexibility to meet their individual needs is the most desirable outcome.

Thank you for conducting this nationwide series of educational forums on electric-utility restructuring, and for providing the opportunity to testify this morning.